

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2002-341-S - ORDER NO. 2003-141
MARCH 17, 2003

IN RE: Application of Shoals Sewer Company for) ORDER APPROVING
Approval of an Increase in its Sewer Rates) INCREASES IN RATES
and Charges.) AND CHARGES

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of Shoals Sewer Company (Shoals or the Company) for approval of an increase in sewer rates for its residential customers in Anderson County, South Carolina. The Company is presently providing sewer services to 36 residents in the Anchor Point Horizontal Property Regime and 68 residents in the Shoals Subdivision. Shoals is presently operating under rates set by this Commission in Docket No. 95-1243-S by Order No. 96-636.

Pursuant to the instructions of the Commission's Executive Director, the Company published a Notice of Filing, one time, in newspapers of general circulation in the Company's service area, and served a copy of said Notice on all affected customers in the service area. The Company furnished affidavits to show that it had complied with the instructions of the Executive Director. A Petition to Intervene was filed by Mr. John Tonjes.

Accordingly, a hearing was held on February 18, 2003, at 2:30 PM in the offices of the Commission. As per State law, a panel, consisting of Commissioners Mitchell,

Saunders, and Moseley heard the case. Commissioner Mitchell acted as Chairman. Mr. D. Fred Allen, the owner of Shoals, represented himself as owner of the utility. Mr. Allen also testified during the hearing. The Intervenor, Mr. Tonjes, did not appear. The Commission Staff (the Staff) was represented by F. David Butler, General Counsel, and Jeffrey M. Nelson, Staff Counsel. The Staff presented the testimony of Roy H. Barnette and William O. Richardson.

D. Fred Allen testified on behalf of the Company. Allen stated that the Company's rates have not increased since November 1996, but the cost of operation and maintenance has increased greatly. Mr. Allen noted that a number of costs and services had increased by varying percentages. Further, the treatment plant is aging and requires more maintenance and repairs, according to Mr. Allen. Allen stated that Shoals could not continue to operate with a negative operating margin and would have to cease operations without the requested rate increase. Allen's requested rate increase is from the present rate of \$25.00 per month to \$35.00 per month per customer. The collective rate for Anchor Point would increase from \$900.00 to \$1,260.00. However, this would still equate to an individual increase from \$25.00 to \$35.00 per month. He also requests an increase from \$5.00 to \$10.00 related to the Company's late fee notice. Allen states that an increase in rates as requested would provide an operating margin of 9.8%, if operating costs do not increase.

Roy H. Barnette of the Commission's Audit Department testified on behalf of the Commission Staff. Mr. Barnette proposed some eleven accounting and pro forma adjustments.

The Staff first proposes to annualize service revenue based on year-end customers. The proposed adjustment is \$2,847, which is reasonable, and we accept it. Next, Staff proposes to remove tap fee revenue and related expenses from operating revenues and expenses. The Company was unable to identify expenses related to the installation of taps, therefore Staff proposes removal of expenses equal to the tap fee revenue on the assumption that tap expenses equal tap fee revenues. Staff's adjustment is (\$1,000) as to service revenue and (\$1,000) as to Operation and Maintenance expenses. We think that Staff's proposal is reasonable as per the explanation cited, and therefore, we adopt same.

The Commission Staff further proposes to increase General and Administrative expense for omissions found during Staff's audit. Expenses included rent of \$100 and administrative fees of \$300 for the month of July, for a total of \$400. We find this reasonable and therefore adopt it.

Staff also proposes an adjustment of (\$707) to annualize depreciation expense based on year end plant-in-service and depreciation rates recommended by this Commission's Utilities Department. Plant-in-service was reduced by Contributions in Aid of Construction (tap fees) before depreciation expense of \$6,823 was computed resulting in the proposed adjustment. The annualization in the manner described is logical and appropriate, and we therefore adopt it. Staff also propounds an adjustment of (\$77) to adjust gross receipts tax using the current gross receipts tax rate of .008141931. The gross receipts tax rate used during the test year was .011206749. This tax adjustment is appropriate accordingly, and is therefore adopted. Further, the Staff proposes to adjust

income taxes by \$90, based on taxable income “As Adjusted,” including annualized interest, and to adjust customer growth for the effects of accounting and pro forma adjustments. The customer growth adjustment is \$30. Customer growth is a reasonable administrative adjustment, and an adjustment should be made. However, the Commission finds the appropriate amount to be \$31, which is consistent with our interest adjustment below. We deny the adjustment to income taxes for reasons discussed below. With regard to the customer growth, the Company began the test year with 101 customers and ended the test year with 104 customers resulting in a customer growth percentage of .97%.

The Commission Staff and the Company both propose to record the effect of the proposed increase in revenue. The Staff has calculated \$12,480 and the Company propounds \$11,253 as the proper amount. We adopt Staff’s adjustment, since we believe it more accurately reflects the proper recordation amount.

Finally, Staff proposes an adjustment of \$102 to adjust the gross receipts tax for the effect of the proposed increase. Staff also proposes to adjust income taxes for the effect of the proposed increase. This adjustment is \$2,383. We find the proper amount to be \$1,619. Further, Staff proposes to adjust customer growth for the effect of the proposed increase. We hereby adopt all of these adjustments as being reasonable administrative adjustments, but we find the proper adjustment for the increase to customer growth to be \$105, which is consistent with our interest adjustment below.

We do deny Staff’s computation of imputed interest. The Staff calculated imputed interest of \$2,764 by allocating the Company’s rate base (net plant) between debt and equity, based on a hypothetical capital structure of 50% Debt/50% Equity, since the

Company's actual capital structure is negative equity. Staff has further stated that if the Commission allows the actual capital structure, the Commission should cap the allowed interest at 100% of allocated rate base, or annualized interest of \$5,527. We reject both proposals. We do not believe that interest expense should be limited to \$5,527 in this case. Company witness Allen testified that the Company paid \$7,200 in interest expense during the test year. Accordingly, we grant the full \$7,200 paid in interest as interest expense to the Company.

William O. Richardson of the Commission's Utilities Department also testified for the Commission Staff. Richardson noted, through testimony and exhibits, that under the present rates approved for the Company, the present revenue annualized is \$31,284. Using the proposed rates, the Company would receive \$43,764, resulting in an increase of \$12,480. The requested increase in a customer's sewer bill is \$10.00 or 40% per month.

FINDINGS OF FACT

1. Shoals Sewer Company is a sewer utility operating under the jurisdiction of the Commission, serving the Anchor Point Horizontal Property Regime and the Shoals Subdivision in Anderson County, South Carolina.

2. The Company is seeking a rate increase from \$25.00 to \$35.00 per month (with an equivalent group rate increase for Anchor Point). In addition, the Company is seeking an increase from \$5.00 to \$10.00 related to the Company's late fee notice.

3. The system presently has 36 sewer customers in the Anchor Point Horizontal Property Regime and 68 sewer customers in the Shoals Subdivision.

4. The Commission Staff's adjustments should be adopted in toto, with the exception of interest, and the associated effect on income taxes and customer growth. We adopt the Company's interest expense figure as proposed.

5. The Company testimony supports the granting of a 15.82% operating margin for sewer operations, which we adopt.

CONCLUSIONS OF LAW

1. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10, et seq. (Supp. 2002).

2. The Commission concludes that each of Staff's adjustments proposed by the Commission Staff is appropriate, except for the interest expense, and associated adjustments. Each of Staff's adjustments except interest expense, income taxes and customer growth is hereby adopted pursuant to the reasoning stated above. The Company's interest expense amount is hereby adopted, because of the reasoning as stated above.

3. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a sewer utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid to construction, and book value in excess of investment, the Commission may decide to use the "operating ratio," and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating

revenues of the utility. The Commission concludes that the use of the operating margin is appropriate in this case.

4. The Commission is mindful of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the Company, but also the proposed price for the sewer service, the quality of service, and the effect of the proposed rates upon the consumers.

5. Based upon all of these considerations, the Commission determines that the Company should have the opportunity to earn a 15.82% operating margin for its operations. In order to have a reasonable opportunity to earn this operating margin, the Company will need to produce \$43,764 in total sewer operating revenues. This may be shown as follows:

TABLE A
OPERATING MARGIN

Operating Revenues	\$43,764
Operating Expenses	<u>29,775</u>
Net Operating Income	13,989
Customer Growth	<u>136</u>
Net Income for Return	<u>14,124</u>
Operating Margin	15.82%

6. The increase granted to the Company is a total of \$12,480.

7. The three fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment

objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing objective under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292

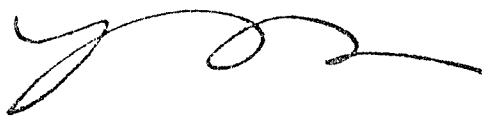
The Commission considered the proposed increase presented by the Company in light of the various standards to be observed and the interests represented before the Commission. The Commission has also considered the impact of the proposed increase on the ratepayers of the Company. The Commission must balance the interest of the Company-the opportunity to make a profit or earn a return on its investment, while providing adequate water and sewer service-with the competing interest of the ratepayers-to receive adequate service at a fair and reasonable rate. In balancing these competing interests, the Commission has determined that the proposed schedule of rate and charges is just and reasonable for all concerned.

Considering these principles, the Commission holds that the granted revenue requirements should be spread among the Company's ratepayers by granting the Company's requested increase from \$25.00 per month to \$35.00 per month, with an appropriate group rate increase to Anchor Point. We also grant the increase from \$5.00 to \$10.00 for the late fee notice. These amounts are shown in Appendix A to this Order. We believe that the record in this case supports these increases as outlined above.

IT IS THEREFORE ORDERED THAT:

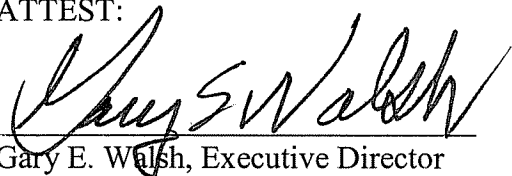
1. The proposed schedule of rates and charges as filed in the Company's Application is found to be reasonable, and is hereby granted.
2. The schedule of rates and charges attached hereto as Appendix A is hereby approved for service rendered on or after the date of this Order. The schedule is deemed to be filed with the Commission pursuant to S.C. Code Ann. Section 58-5-240 (Supp. 2002).
3. The Company shall maintain its books and records in accordance with the NARUC Uniform System of Accounts as adopted by the Commission.
4. The Company shall notify each customer of the customers' increase in rates with the first bill that includes the new increase in rates made subject to this Order.
5. If the approved schedule is not placed in effect within three (3) months after the date of this Order, the approved schedule shall not be charged without written permission of the Commission.
6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Mignon L. Clyburn, Chairman

ATTEST:



Gary E. Walsh, Executive Director
(SEAL)

APPENDIX A

SHOALS SEWER COMPANY

99 HARBOR DRIVE
ANDERSON, SC 29625

FILED PURSUANT TO DOCKET NO. 2002-341-S - ORDER NO. 2003-141
EFFECTIVE DATE: MARCH 17, 2003

<u>CLASS OF CUSTOMER</u>	<u>CHARGE</u>
The Shoals (per unit)	\$ 35.00 Monthly
Anchor Point	\$1,260.00 Monthly
Late Fee Notice	\$ 10.00
Tap Fee (per unit)	\$ 500.00